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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the Churchill Downs Incorporated 2016 first quarter conference call. (Operator Instructions). As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Mr. Mike Anderson, Vice President, Treasury, Investor Relations.

Mike Anderson - *Churchill Downs Incorporated - VP, Treasury, IR*

Thank you. Good morning, and welcome to our first quarter 2016 earnings conference call. After the Company's prepared remarks we'll open the call for your questions. The Company's 2016 first quarter business results were released yesterday afternoon. A copy of this release announcing results and other financial and statistical information about the period to be presented in this conference call, including information required by Regulation G is available at the section of the Company's website, titled News, located at churchilldownsincorporated.com. As well as in the website's Investor section.

Before we get started, I would like to remind you that some of the statements we make today may include forward-looking statements. These statements involve a number of risks and uncertainties that could cause actual results to differ materially. All forward-looking statements should be considered in conjunction with the cautionary statements in our earnings release, and the risk factors included in our filings in the SEC, specifically the most recent reports on Form 10-Q and Form 10-K. Any forward-looking statements that we make based on assumptions as of today, and we undertake no obligation to update these statements, as a result of new information or future events.

During this call, we'll present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release. The press release and Form 10-Q are available on our website at churchilldownsincorporated.com. And now I would like to turn the call over to our Chief Executive Officer, Bill Carstanjen.

Bill Carstanjen - *Churchill Downs Incorporated - CEO*

Thanks Mike. Good morning everyone. Even though we are still eight days away from this year's Kentucky Derby, I will go ahead and say it, Happy Derby Week. With me today are several members of our team, including Bill Mudd, President and Chief Operating Officer, Marcia Dall, our Chief Financial Officer. I will make a few general comments, and then turn this over to Marcia. After she finishes her commercial Marcia, Bill Mudd and I will be able to take your questions. Let's spend a few minutes on our first quarter, and then I will touch briefly on the Kentucky Oaks and the Kentucky Derby. The Company produced record net revenues and record adjusted EBITDA for the quarter. Both of these metrics speak to the strength of the Company, and we're pleased with the trend.

It's worth noting that Big Fish was a significant driver of the increase in net revenues, but actually negatively impacted the growth of adjusted EBITDA by delivering approximately $5 million less than prior year. I know many of you have questions about this. We'll explain why Big Fish was up so significantly on the net revenue line, but down in adjusted EBITDA. First things first though, we did see a decline of $23 million in our free cash flow for the quarter compared to the first quarter of last year, but this was entirely driven by unusual items, that more than offset the growth in cash flow from our core operations that we have otherwise experienced. Marcia will provide more detail on the unusual items in her comments.

Turning to our business divisions, there were things to point out about each. With respect to our Casinos segment, that revenue increased a modest $0.5 million over prior year, but adjusted EBITDA was up $3.9 million, or 13%. Marcia will explain the variance of the prior year in more detail. I would just like to offer a couple of general comments. Across our portfolio of properties, some of our markets remain better than others, but generally it continues to be a relatively stable and predictable segment for us. Our operating teams are very focused on cost efficiencies, and that helps us manage effectively to the bottom line even in our markets that are more challenged for top line growth.

We get asked on most of these calls what we think about the macro environment. To generalize, the current macro environment seems relatively consist with recent periods. We have no cause to expect significant changes, and thus we continue to be conservative in how we invest in and operate our properties. I feel our teams are continuing to get better at this as both they and the Company as a whole get more experienced in our local markets.

Marcia will get a bit more granular in her comments, but I should note that we have been happy to see that our Oxford Casino in Maine has been growing both net revenue and adjusted EBITDA. As we announced yesterday, we decided market conditions at Oxford warranted the construction of a 100-plus room hotel at our property. We like gaming properties with small capital footprints to maintain, so construction of a $25 million hotel is not an expenditure we take lightly. Our analysis tells us it makes a great deal of sense in this case. We're deep into the planning for that and hope to have it opened around the middle of next year. We've also been pleased with our Miami Valley operation between Cincinnati and Dayton. We think we have built what our customers want in the market and we're focused on learning how to grow it and run it as efficiently as possible.

Turning to our TwinSpires segment, wagering, or handle, as we call it, up 10.6% in the first quarter after being up 11% in the fourth quarter. According to Equibase, handling across the industry as a whole was up about 3.1%, meaning we outgrew the industry by 7.5 percentage points. Adjusted EBITDA was up $2 million, or about 20%. Our team is hyper-focused on acquiring new users and improving new revenue for existing users. While we have benefited over a long period of time from the trend of horse players moving their play online from traditional brick and mortar outlets, we market extensively around the Kentucky Derby, Triple Crown season, and the Breeders' Cup. Since that is when the sport acquires new fans. We continue to see success doing this.

While we're constantly and aggressively trying to improve on our all of operating process, our strategies for growing the business have been pretty consistent over time. We believe we're still on the right path based on our quarterly growth trajectory. Before we leave TwinSpires.com, those of you with Apple mobile devices, iPhones and iPads, please download the TwinSpires.com app so you can bet the Kentucky Derby, and all of the other races from the convenience of wherever you happen to be. Those you with Android devices, sorry, but Google doesn't not yet allow gambling apps. While we will keep working on that,please open up TwinSpires.com on your internet browser. That's a great experience as well.

Let's turn to Big Fish games. For those of you who really understand this business, forgive me, but I would like to remind some of the others who are not as familiar, how this business works. Big Fish is both a major content creator and an expert at content distribution. We respect to content creation, we operate six internal studios, each with different approaches, for the same goal of delivering popular and profitable mobile games. These studios build games internally, as well as partner with a network of third-party developers, to greatly supplement our internal game production capabilities. The goal is always to have a broad portfolio of content against which we can apply our world class marketing and business analytics, to achieve broad distribution of our most promising games. While Big Fish Casino has been the flagship free to play mobile platform of Big Fish Games, we are fortunate that it is joined by an increasing portfolio of other games against which it competes, to be the highest and best use of our marketing resources.

Big Fish contributed $128 million of bookings, and $15 million of adjusted EBITDA in the first quarter. You'll notice that while bookings are up significantly in the first quarter from both the prior quarter and from the first quarter of 2015, adjusted EBITDA, and of course, the adjusted EBITDA margin rate was down. Last quarter, the last quarter the fourth quarter of 2015, bookings were $121 million, and adjusted EBITDA was almost $27 million, while first quarter 2015 bookings were $104.8 million, and adjusted EBITDA was $20 million. Despite higher bookings in the first quarter of this year, year-over-year adjusted EBITDA dropped approximately $5 million over prior year. $3.3 million was a result of nonrecurring benefit in the first quarter of 2015 in connection with the business combination accounting rules. I want to put that aside.

I want to focus on why the remaining $1.7 million decline in adjusted EBITDA occurred in the first quarter of 2016. As we have discussed on past earnings calls, adjusted EBITDA as a percentage of bookings is going to vary from quarter to quarter, based on how we allocate resources for user acquisition,or as we call it, UA. This is by far the largest expense for the Big Fish business, as margins decline when we scale UA up, or are new or improved games and margins increase when we harvest or sunset, older games, and hence pull back on UA.

The accounting reason for this is that UA expense is recognized immediately but the revenue associated with that UA expense is realized over the lifetime of those new users which can last days, to months, or even years, after they install the game. As we produce new hit games and invest UA to scale the games, even though it has a long term positive ROI, adjusted EBITDA is usually driven down in the short term. In the first quarter we spent approximately $14 million more on user acquisition than we did in the first quarter of 2015,a 47% increase. We currently have eight games in which we are meaningfully investing UA spend versus two games at this point last year.

UA expenses in the first quarter of 2016 were flat to down for those two games we were investing in during the first quarter of 2015,Big Fish Casino and Gummy Drop. So most all of this increase in the first quarter of 2016 UA expense is due to new investment opportunities for our newer or revamped games. Fairway Solitaire, Fairway Solitaire Blast, Cascade, Sunken Secrets, Dungeon Boss, and Vegas Party Slots. As opportunities with respect to these games emerged, we have been scaling UA accordingly.

In the fourth quarter of 2015, we spent approximately $9 million more than on UA than we did in the prior quarter. In the first quarter of this year, we increased UA by another approximately $12 million over fourth quarter. This ramp up in user acquisition spend is obviously impacting our margins, but this is a positive sign for the future, as it shows continued product improvements in existing games, plus a healthy pipeline for new games. We want to spend intelligently on UA now for bigger returns later on. Note that our increased investment in more games does not mean that these other games will achieve the revenue scale of Big Fish Big Fish or Gummy Drop. Although they may, and we certainly hope they do, instead of just being that these game show metrics that indicate that we have the opportunity to invest UA today to yield a positive return down the road.

As you know, we do not make forward-looking projections and I am not doing so here. I'm simply explaining that you have seen, and you will continue to see variations in our margins or adjusted EBITDA as we either take advantage of attractive new opportunities to increase UA spend for various games, or reduce UA spend for titles where the UA spend is less efficient. A continued growth in bookings for the quarter shows that we're on the right course. Note, the current performance in bookings is largely a function of UA spend from various prior periods, as opposed to UA spend from this quarter.

A few thoughts on Big Fish Casino and the social casino category in general. Big Fish Casino, which is a much a social platform as it is a game, continues to be a leader in the mobile social casino segment. Big Fish Casino experienced a modest $1.9 million decline in bookings in the first quarter versus prior year. The slight year-over-year decline was primarily due to a larger decline in February, when we did not repeat the higher levels of promotions that we had done in the prior year. Bookings were actually up year-over-year in January and March. The relatively flat performance of Big Fish Casino highlights that the healthy first quarter bookings growth of the overall Big Fish segment was driven by our newer titles, in the free to play, casual, and mid core categories.

With respect to Big Fish Casino, our cost per install or CPI, has risen steadily over time, reflecting both the general maturing of the social casino genre, andthe challenge of finding new players for a very well known product and brand like ours. With fewer opportunities to invest marketing in our targeted ROI, we have reduced UA spend accordingly. However Big Fish recently completed a platform upgrade and implemented new content and features, while it is early theseupdates appear to have enhanced many of the metrics we targeted, and improved the overall performance of the game. One proof point is that we're seeing increases in paying users.

I don't want anyone to think we're not committed to the social casino genre. We are, and we are bullish on it over the mid to long-term. In the quarters ahead, we will continue to publish new slide content, and introduce new or improved features that increase the long-term value of new users who install the game. As Big Fish Casinos performance improves, and as we add new products in this genre, we'll increase our UA investment to maintain our leadership in the important category.

Now Vegas Party Slots. Vegas Party Slots is not nearly to the scale of Big Fish Casino, however it's bookings are growing, and we believe it adds a graphically rich Vegas slot style product to our social casino lineup. I would like to see this game grow more quickly to scale than it has been, but there are still positive signs for us, and our experience has taught us that it pays to be patient. As I just mentioned, we also plan to release new products from the social casino space, that will add to our portfolio in the social casino market segment, and create new growth opportunities. More on that in the quarters to come, as these products hit the market. We are on this.

Finally, the premium casual game division, i.e., our traditional PC and mobile based pay up front games business. This segment continues to experience secular decline, as we expected, as consumer preference shifts towardsfree to play mobile products. Although it continues to contract, it also continues to be a profitable business with margins largely in line with recent quarters. This business produces attractive margins by operating efficiently and sensibly. We have noticed that the rate of decline in bookings has slowed, but we do not know yet if that trend will hold up in subsequent quarters.

Finally, I would like to cover a few points with respect to our horse-racing segment. While net revenues and adjusted EBITDA improved over prior year, outside of our live race meet at the Fairgrounds in Louisiana, there's not a great deal of action in the division during the first quarter. We try to operate as efficiently and cost consciously as we can. As quiet as the first quarter may be, the second quarter has a bit more action for us.

As I mentioned, the Kentucky Derby is a week from tomorrow. As you may recall, we put out a press release very shortly after each Kentucky Derby covering some of the key operating and financial metrics for the event. We will let that press release speak for itself. Suffice it to say we're excited for the 142nd edition of The Run for the Roses. We have completed our $19 million renovation of the Turf Club and Stakes Room, and we are looking forward to showing that off, along with celebrating the day with all of our customers.

Finally, you may have seen the press release earlier this week announcing that The Breeders' Cup will return to Churchill Down Race track in 2018, which will mark the first time the event will have been in Louisville since 2011. That is a great development, and we're thrilled to see it return. With that, I would like to turn this over to Marcia to provide some additional details on the quarter. After that we'll be happy to take your questions. Thank you. Marcia.

Marcia Dall - *Churchill Downs Incorporated - EVP, CFO*

Thanks Bill. Good morning everyone. I too am excited to experience the142nd Kentucky Derby next week. As Bill mentioned in his opening remarks, we delivered a strong performance for the first quarter, with record levels of revenue and adjusted EBITDA. Free cash flow was down $23 million compared to the prior year quarter. I will go into more detail on the drivers of this decline in a few minutes. We are pleased that we generated $2.8 million of net income, or $0.16 of diluted earnings per share, which is up $4.4 million from the prior year quarter.

Now I'll go into more detail on the drivers of each of these key financial measures, beginning with total revenue. Total revenue for first quarter was up $37.5 million, as we were able to increase net revenue in each of our segments. Big Fish Games was the largest driver of our revenue growth, reflecting strong growth in our casual and mid core free to play gamesduring the quarter. Big Fish Games had a 22% growth in bookings. Our social casino bookings were down 4%, due to a 9% decline in average paying users, that was partially offset by a 6% increase in average bookings per paying user. Our bookings from our casual and mid-core free to play games more than doubled compared to the prior year quarter. As Bill mentioned, we did see a 9% decline in the bookings in the premium play games.

Turning to our other segments, our TwinSpires revenue increased $4 million compared to the prior year. Handle increased 10.6%, which was 7.5 points higher than the industry growth in the quarter. Through strong retention and activation efforts,our team was able to increase its unique players by 7% and generated a 30% increase in new registrations.

We also continued to benefit from the migration of customers to online horse race wagering. Racing revenue from external customers also increased $2.4 million in the quarter, reflecting higher simulcast pari-mutuel revenue at Arlington, from an increase in the number of host days, and a small increase in pari-mutuel revenue in Churchill Downs. We did have a slight decline in Fairgrounds racing revenue as a result of a 4% decline in handle on three fewer race days. Our casino segment generated a $0.5 million increase in revenue, as we continued strong revenue growth at our Oxford Main Casino, modest growth in our Louisiana video poker facilities,and management fee income from our Saratoga investment, was nearly offset byquarter-over-quarter reductions in revenue from our Fair Grounds Slots and Louisiana and our Mississippi casino.

Our Oxford main casino grew its market share, and benefited from great weather with 14 less severe winter weather days than the prior quarter, and from a good economy that is enjoying a less than 3% unemployment rate. Our Fair Grounds Slots facility continues to be impacted by the smoking ban in the Orleans Parrish. This should be the last quarter with the significant year-over-year variance, given the implementation of the smoking ban in late April 2015. Revenue from Harlowe's, River Walk, and Calder, was negatively impacted by market declines, increased competition, and specifically in the case of Harlow's, a heavy flooding in the surrounding area during the second week of March.

Turning to adjusted EBITDA, our adjusted EBITDA for the quarter was up $3 million compared to the prior year. Our casino segment adjusted EBITDA improved by $3.9 million from the strong top line growth at Oxford Casino, a $1.1 million increase in management fee and equity investment income from Saratoga, a $1 million increase from market share growth for our Miami Gaming joint venture, and effective cost management, especially at our Mississippi Casino properties. This growth was partially offset by a $1 million impact as a result of the smoking ban at our Fair Grounds property. Our racing segment adjusted EBITDA improved by $1.8 million, primarily as a result of the increase in Arlington and Churchill Downs pari-mutuel and other operational revenue, that was partially offset by a decline in racing related revenue for Fair Grounds, on fewer live racing days. TwinSpires delivered $2 million of incremental adjusted EBITDA, primarily based on their strong revenue growth.

As Bill mentioned, Big Fish Games did have a $5 million decline in adjusted EBITDA, as we expected compared to the prior quarter. $1.7 million of the decline was driven by the $13.5 million increase in user acquisition spend, that Bill discussed, which was mostly offset by the impact of higher bookings. $3.3 million of the $5 million decline in adjusted EBITDA for Big Fish Games was related to a lower benefit in first quarter 2016 compared for first quarter 2015, as a result of business accommodation accounting rules related to game technology and rights. And finally regarding free cash flow, we report a decline of $23 million in our free cash flow compared to first quarter of last year, driven by unusual items that more than offset growth in cash flow from our core operations.

There were three unusual drivers in the decline in our cash flow from operations. The first unusual item was related to the Big Fish earn out payment. $20 million of the $282 million Big Fish earn out payment made in March 2016 is included as a reduction in cash flow from operations. The $20 million represents the fair market value portion of the earn out payment that based on accounting rules, must be reported as a reduction of cash flow from operations. This is the same $20 million that has flowed through the income statement as an adjustment to EBITDA since the acquisition in December 2014.

The second unusual item was a $12 million tax refund related to Big Fish that was received in first quarter 2015, and reported based on accounting rules as cash flow from operations, and then paid to the prior owners of Big Fish, as part of the acquisition agreement. The payment to the prior owners of Big Fish was reported as financing cash outflow in the same quarter of 2015. And the third unusual item was a $9 million tax refund that Churchill Downs received in first quarter of 2015. Our cash flow from operations excluding these unusual items was up $18 million,primarily from growth in our core operations.

Regarding our debt levels, we did pay $282 million of the Big Fish earn out in March. We funded the payment from cash flows from operations, and $205 million of borrowings under our existing credit facility. We plan to pay the remaining amount of the earn out in two payments, $34 million in March 2017, and $34 million in December 2017.

Lastly, the primary drivers of the $4.4 million increase in net income was a $10.4 million increase in the operating income, that was partially offset by a gain on sale of our interest in HRTV in the prior year. With that, I'll turn the call back over to Bill, so he can open the call for questions.

Bill Carstanjen - *Churchill Downs Incorporated - CEO*

Thanks Marcia. Okay everybody, if anybody has any questions, we're happy to take them.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question comes from Cameron McKnight of Wells Fargo. Your line is now open.

Cameron McKnight - *Wells Fargo Bank - Analyst*

Good morning. Thanks very much.

Bill Carstanjen - *Churchill Downs Incorporated - CEO*

Good morning.

Mike Anderson - *Churchill Downs Incorporated - VP, Treasury, IR*

Good morning.

Cameron McKnight - *Wells Fargo Bank - Analyst*

So first of all on Big Fish, just looking at the difference between revenue and EBITDA, it look as though expenses at Big Fish have gone from about $70 million to $75 million, to $105 million over the past two or three quarters. Can you walk us through the decision process to increase spending in Q4, and increase spending again, Q-on-Q in the first quarter of this year?

Bill Mudd - *Churchill Downs Incorporated - President, COO*

Hey, Cameron, this is Bill Mudd. As you refer back to Bill's comments, and it's very obviously a lot of information in his comments, and you have to really listen very carefully, because this is a business you have to think through and understand. Going back to last year, we were really investing in two products, Gummy Drop and Casino. Those are the two products. As you remember, Big Fish had just kind of entered the free to play space. The free to play space is a space where when you acquire customers, the returns on those customers, as you get more data, you feel more comfortable investing more money in UA. So let's take the $14 million as an example that we increased in the first quarter of this year, versus the first quarter of last year. I will also remind you that there was a $12 million increase, versus what we had done in the fourth quarter of last year. We ramped up UA over the last couple of quarters, because we have seen good investments to put that money into.

Let's take that $14 million. Typically, when you have a free to play game, the returns on those games vary anywhere from let's just say six months, that's kind of the average shortest, because if you can do it at three or four months, you keep pushing more UA in until you get a number that you feel comfortable with. Six months on the short end. 18 months if you get really comfortable with a product like the Casino business. If you spend money, it is going to take you anywhere from 6 months to 18 months to ear that money back. Let's take the $14 million as an example in Q1. Let's assume that $14 million was al spent March 30th, now that's not really what happens,we spend it based on every day depending on how much return that we get. But let's assume that we spend it all March 30th.

That $14 million we didn't get a dime for that in the first quarter of this year. Now let's assume that there's a 14-month payback, just to make the math simple. So if it is a 14-month payback, and you assume it's linear, which is it's not. There are definitely some changes to it, but when you blend it all together it gets to be linear. Let's assume you $1 million in incremental EBITDA every month for 14 months, that's the payback period. So you lose $14 million month 1, the second quarter you pick up $3 million, because you pick up three months of EBITDA. So if you spend that same $14 million in the second quarter. Then you're only down $11 million in EBITDA, right?

And then you get to the third quarter, you pick up $3 million more, now that $14 million is only $8 million, and so there is a compounding effect to it. The reason why EBITDA was only down $1.7 million on apples-to-apples basis is because we have been spending that money. So the good news to me, it's really good news when you see that the bookings grows by 22%, and then we were able to spend an extra $14 million. That's really investing in our future quarters. And that's how we think about it.

As Bill said, if you look at how we spend our money, we're evaluating these things constantly. There are millions of devices out there, there are lots of different types of devices, there are lots of different types of games, there are lots of marketing channels, and the big data that Big Fish does, which I would put them up against anyone from an analytics capability perspective, is evaluating each one of those investments. If you look at what we've done versus the fourth quarter, as an example, very excited about Dungeon Boss, we have got core data. We actually spent less on UA in Dungeon Boss in the first quarter than we did in the fourth quarter. Because we have more data, wedidn't like the monetization and retention patterns. We still spent quite a bit of money.

So on a year-over-year basis, it was the biggest driver of UA increase, although it wasn't anywhere near the majority. But we evaluate it constantly. So now we are tweaking the game to get the monetization retention patterns where they want it to be, so that they can put more investment into it. In the meantime, you have old games we've tweaked like Fairway Blast and Fairway Solitaire,which are Evergreen Games that we own and we run the IP on. They are the biggest driver of increase on a quarter-over-quarter basis, outside of actually we have increased spending money on Gummy Drop on a quarter-over-quarter basis. Because we made some additions to that game. So Fairway Blast and Fairway Solitaire huge increases in spending. Cascade, another match three, you will see that in the top 150 pretty consistently now. Another match three game.

So when you look at games like our Fairways series, last year we were doing $38,000 a day, this year in the first quarter, we are doing $96,000 a day. Those are people that hang around, stick to that game. We have got a lot of data, we are able to pump some money into UA. That's the real way you have to think about the business. Cascade, same thing, we did $8,000 a day last year, we started pumping money into it now, there is it a unique Cash 3 product, we are doing $33,000 a day. And that's growing. We're investing in our future. We don't want one product like Gummy Drop or one product like Casino. This is a new business in the free to play space. We will continue to pump money into games where we see that we have a great return on investment. Hopefully that helps

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Cameron McKnight - *Wells Fargo Bank - Analyst*

Okay. Got it. Thanks. If we dial back the clock to I think around the second quarter of last year, you guys posted great results, sequential growth in revenue, sequential growth in EBITDA. At that time you cautioned, hey guys look there is going to come a quarter where we are going to have to invest heavily in the product. Quarter-on-quarter results are going to be lumpy. Is this basically the quarter that you were alluding to back then, where the marketing spend does increase significantly?

Bill Mudd - *Churchill Downs Incorporated - President, COO*

I mean, who knows. If we get into the second quarter and we find out that the metrics fall apart, because some third-party event happens, maybe it drops, but I don't see us pulling back on investing in these games if we keep getting good returns. If you look at what we did last year, we really had two games we were investing in through the third quarter. In the fourth quarter where you saw that we increased investment by over $9 million in UA compared to the second quarter of last year, or the third quarter of last year. So we increased UA spending from the third quarter to fourth quarter by $9 million. These things go. You have got to think about the momentum of the game.

If there's of a point where our margins get crazy good, then we probably don't have enough games to invest in, and then I start to worry we had better be working on R&D. But right now these games show great metrics. Sunken Secrets is a great example of a game that we pulled back on in the first quarter, we just did a release, and we've had a great few days. We have got to get some more data, but that is a game that I can see us pushing the accelerator more on in the second quarter. It's really hard to tell any forward-looking guidance. This is day where we look at stuff on a daily basis, to see what our returns are.

Cameron McKnight - *Wells Fargo Bank - Analyst*

Got it. Sorry

Bill Carstanjen - *Churchill Downs Incorporated - CEO*

Cameron, let me add something to that. I think if there's been optimism in the past expressed on calls, it's not really been foreshadowing, it is just that we see in soft launch that we have games. Usually in soft launch we don't see monetization characteristics that we are looking for long-term, but we take a lot of optimism from whether we are seeing retention of customers and time on device, time in the game. So usually the last thing we need to work on is monetization to get that sync to work right.

But one thing we were seeing last year, like we're seeing now, we were seeing more gains in our portfolio that we had some optimism we may be able to develop into monetizable games. So as we've said from the beginning when we entered the space, we wanted to pursue a portfolio effect, where we were taking shots, or swinging the bat, at many different types of pitches, because we thought there was some commonality in the teams and the skill sets, that would allow us to try different genres of games. Doesn't mean though that when we see something in soft launch it means six months later we'll be investing heavily in that game. As Bill was just highlighting, at any different time our assumptions can turn out to no longer be true. Sometimes we can't get the game to monetize. Sometimes it doesn't monetize at the level that we would like. Sometimes there's another game that comes out that's better. All of those things can change our perception. We don't go into this thinking that we have got a game one a year from now that's going to be a mega hit. Every day it is the analytics, every day it is careful analysis, to see what we have learned from the day before. This isn't a business where you can be anything other than humble. Every day you have look at your analytics, and every day you have to invest in the products that are worth investing in, and you have to be working on developing new games, based on what you see other people doing out there that are successful.

Cameron McKnight - *Wells Fargo Bank - Analyst*

Got it. Thanks. One last question from us. You guys have constantly been investing in the Derby, and really haven't stood still there. Can you summarize for us this year what new offerings and amenities are on offer at the Derby?

Bill Mudd - *Churchill Downs Incorporated - President, COO*

Yes, I would be happy to. This year we spent $18 million really renovating two key areas. One is our third floor Turf Club area. We have taken another area, which was the Matlin Dining room, for people that are there. And we have completely redone that, we have added a muchbroader area, we have enclosed the balconies with some roofs, and added new tables out there, on the fourth floor in our Stakes and Directors Room, we have taken all of those walls out, and created a much bigger space, with more opportunities for guests, for tables, and what not. And there's also balconies enclosed there as well.

We've done a lot of things that really improves from the existing spaces on the interior side. When you think about our segmentation of our customer base, we have got the Mansion, which was the ultra high-end, and then we had kind of other areas. This takes that area and kind of shoves it in between the Mansion and Millionaire's Row, which is another segment of our customer database. So of the initial people that have gone through, there are some articles out there where Kevin Flannery and the Racetrack team, which did a great job for us out there, they went out and did a bunch of reviews, there are some articles online where people can go out and see pictures, and see some of the articles that were written.

Cameron McKnight - *Wells Fargo Bank - Analyst*

Okay. Great. Thanks very much guys.

Bill Mudd - *Churchill Downs Incorporated - President, COO*

Thank you.

Operator

Our next question from David Katz of Telsey Group. Your line is now open.

David Katz - *Telsey Advisory Group - Analyst*

Hi, good morning.

Bill Carstanjen - *Churchill Downs Incorporated - CEO*

Good morning, Dave.

David Katz - *Telsey Advisory Group - Analyst*

I heard everything that Bill Mudd went through in terms of Big Fish and the business. If I can just go back to that issue, and we could talk about, obviously our plight is to put together a forecast, and based on how you describe what you describe, that seems challenging, which I am sure you can appreciate. So should we be looking at this business in a last 12 month, or next 12 months basis in total? And overlook the quarters, so to speak? And if that's correct, help us think about what the next 12 months could look like? Again understanding that it's not easy to give guidance, and that may not be your policy, but our charge, obviously is to put together a forecast and decide how to value it?

Bill Carstanjen - *Churchill Downs Incorporated - CEO*

David, I think it's going to take a couple of us to answer that question. There's some specificity and some generality, and it's worth getting into all of that. It is Bill C. I will start. I would say that the one view into the health or the expectations of our Company, and again, we don't give forward-looking guidance, is to look at the games we have released, and to look at the profile of those games. I think that gives you a sense of what's going on currently, and that can change compared to say 12 months ago.

As we've talked earlier today, 12 months ago we really had two games that we had any real sort of upside to investing in on a significant scale, and that was Gummy and the social casino space. Now we have more games of different sizes that you see some patterns of investing. That's really, I think a key driver to look at in terms of how many games do you see that are out there. What sort of size do you see in those games, in terms of the publicly available data. That gives you a general feeling for what's going on.

I would say the one thing that's helpful to understand is you don't see these games, at least under our trajectory that we've shown, you don't see the games go from zero to 1,000 miles an hour, you have to build them individually. It's really a question of how many new games do we put out there and what level of activity do you see in some of the public data on those games. I'm sorry for the feedback we're having out there. But I don't think that's on our end.

David Katz - *Telsey Advisory Group - Analyst*

You sound fine to me. That is okay.

Bill Mudd - *Churchill Downs Incorporated - President, COO*

David, this is Bill Mudd. And I trying to come up with a fair analogy. I would say that it's like looking at very high growth companies. One obviously that comes to mind, would be Amazon, where they just plowed a lot of money into growing that business early on, or maybe a Netflix. But we have a very big challenge here, and it's a challenge that is, we could have delivered a very high EBITDA margin business in the first quarter, and blew everybody out of the water. And Bill, and I and the team out in Seattle had a very long discussion about whether we wanted to do that. In fact, we could have spent a lot more on UA if we really wanted to this quarter.

We thought where we ended up was a good balance of investing in growth in the future, and presenting a P&L that our investors would be happy with. Let me say, it's a very difficult job to balance the expectations of all of your constituents, while at the same time ensuring that you continue to grow the Company, and do what's right long-term. The way that I would think about this is, first of all, it can be very difficult. I think what Bill said is a very salient point. It's good new that we have a lot of products that we can invest in. So if you were in the fourth quarter, and I know that everybody wants to give me forward-looking guidance, this is a great example of why I can't. Fourth quarter we were very excited about Dungeon Boss. We plowed a lot of money in, it was the single biggest contributor to our UA spend increases versus the second quarter. Excuse me. It was a big contributor to the UA versus the third quarter of last year.

However we got into the first quarter of this year, and we saw that the retention and monetization characteristics centered around events and things that were not on an ongoing consistent basis. We had to pull back and rethink some of the mechanics of how the games work. And the team from a technology space is continuing to do that. In the meantime, we have continued to invest a lot of UA, and it's the biggest on a year-over-year basis, even though it was down versus a quarter-over-quarter basis. The way I think about this business is if we're investing in UA, and bookings are growing, that's a good thing. If we stop investing in UA, then I would probably be a little bit more concerned. This is all about momentum, right, if we are in pricing this year,next year we'll have hopefully a much bigger set baseline of bookings that are in our base. And we already have a big base of UA spend. But hopefully we'll have new games and we'll be able to increase those even more, and get both more growth in bookings and growth in EBITDA and growth in UA. That's what our goal is. It takes time. You have to have a big portfolio of games to get there, and I think that this is the beginning of that

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Bill Carstanjen - *Churchill Downs Incorporated - CEO*

I think growth and bookings, or change in bookingsis a real indicator of the health of our business, and the long-term growth prospects of our Big Fish business. I think one important challenge for us with our investor community, is to demonstrate over time that we make smart investment decisions when it comes to UA, to profitably drive bookings as opposed to just artificially inflate bookings, or make bad decisions on marketing spend to acquire bookings. One thing we have already proven, and I think it is a long-term challenge and focus for us, is to always demonstrate that we're making smart choices on UA investment to drive responsible, sensible, and profitable bookings growth

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Bill Mudd - *Churchill Downs Incorporated - President, COO*

I'm going to hammer on that point one more time that Bill just said. When you think about UA spend that we spent this quarter, you really have to believe that, and know that the Big Fish team is very good at a they do, and that we're going to get a return on that investment. It's not like they're spending those bookings with the hope of something to come, they spend it based on data. We're a very data and analytically-driven company. We don't invest in things that are jump balls, we invest in things that we know we're going to get a return on. That is the way that I think about it. So we are really allocating the maximum amount of UA spend that we can stomach, and still deliver a P&L that we feel good about in the current period. That is the balancing act that goes on. We're actually very happy with the results we have achieved this quarter. And we're very happy that we're setting ourselves up for growth over the long-term.

David Katz - *Telsey Advisory Group - Analyst*

So if you don't mind if I follow that up. I just want to be clear about sort of the nature of my question. I think that you have earned the confidence of a lot of us. Myself included. And so I mean not to question the decision to invest or not to invest in a business like this, because I would say that

I think most of us understand how, I think, the term I used in my note this morning, was that it can be circuitous. It's not necessarily a straight line up or forward. And so the decision to invest, you have our trust. I think more along the lines of how do we sort of gauge our expectations over the short, medium term, as we sort of maintain that confidence going forward? Because for better or worse, we're sort of in this public arena, that bears some attributes that there's no getting around them?

Bill Carstanjen - *Churchill Downs Incorporated - CEO*

Let me --

David Katz - *Telsey Advisory Group - Analyst*

And so I think you see what I am getting at, right?

Bill Carstanjen - *Churchill Downs Incorporated - CEO*

I think so. I'm going to take a stab at it. I believe I do understand the question. I would say that Big Fish is an evolving, growing business. It's different than it was a year ago, I think as you look to the future of it, there are a couple things to keep in mind, and that is as the business has grown, as you see in our first quarter, we are demonstrating a propensity to have more games that are investable. So I think before you think about, well what's the particular margin rate per quarter, you have to look at the performance of the games that we have in the portfolio now. You have to look at, and a lot of the data you can track publicly to help you figure out, now especially since you have a little past performance data on us on these games, you can look at that data to help you figure out what we're doing.

We don't provide the forward-looking guidance. And it wouldn't be sensible to march down that path of trying to do that. So I would ask that you use as a proxy, an understanding of how many games we have out there, and the relative size of those games. Doesn't mean those games will continue on a trajectory, or that some won't grow smaller, or that some won't grow faster than others, but I think I would ask that our investor community be cognizant of the fact that the Company was built to offer more than one game, to offer more than one product line, and it is a good thing, as demonstrated in the bookings, that we're now demonstrating that we can offer half a dozen plus games at once.

So I think right now that's, again without offering forward-looking guidance, that's the universe that we find ourselves in. We have more than two games. We have half a dozen or more. I think now perhaps going forward, people will be more on the lookout as they see us introduce new games that move up the App Annie charts, et cetera. Right now hopefully our current portfolio of products gives the investor community a bit of a sense of how we're growing on the bookings line, and what sort of investments we're making to grow half a dozen plus games instead of one or two.

David Katz - *Telsey Advisory Group - Analyst*

Okay. Thank you.

Operator

Thank you. Our next question comes from Adam Trivison of Gabelli and Company, your line is now open.

Adam Trivison - *Gabelli & Co. - Analyst*

I hate to harp on the issue, can you talk about the cost structure of Big Fish X UA, and how that has tracked since you guys have owned it?I know there wasn't much integration off the bat, how much has been done, how much will be done in the back office, at least?

Bill Carstanjen - *Churchill Downs Incorporated - CEO*

Sure, Adam. It's Carstanjen again here. There are different theories behind every acquisition, and we've had different theories as we've done acquisitions. As we rolled up a couple of account wagering platforms in the past, synergies were a big part that have. However when it comes to Big Fish, this is a growth company. So you have got to pick your poison, pick what you are most focused on, and what is most important.

For us, with Big Fish we were acquiring a new platform, a new vehicle in which to grow the Company. So trying to find or force synergies in core functions or common functions has not been a focus. I think over time you might see us grab low-hanging fruit. Of course, we'll do that when there's low-hanging fruit, but it's not a primary thesis, or a primary objective to try to squeeze cost out of this business because this business has a lot of good runway ahead of it, and a lot of great people, and a very strong culture in Seattle. And we're more focused on being able to grow it, than we are squeezing cost efficiencies out by merging functions.

Adam Trivison - *Gabelli & Co. - Analyst*

Okay.

Bill Mudd - *Churchill Downs Incorporated - President, COO*

And also, I'd also say the heaviest cost of the piece of the business is really the user-acquisition spending, and that will be dictated by the products that we feel comfortable investing in, and then of course, we have the platform fees from Apple and the Amazon stores, or the Google stores, or Android stores, I should say. Those are obviously variable with the amount of bookings that we get. And the rest of it, we'll get some customer service as we grow the Company. We add some of that cost. There is some leverage on that. But the rest of it is very leveragable.

Adam Trivison - *Gabelli & Co. - Analyst*

Okay.

Bill Mudd - *Churchill Downs Incorporated - President, COO*

The analytics and marketing side of it.

Adam Trivison - *Gabelli & Co. - Analyst*

That makes sense. When did you guys do the platform upgrade on Big Fish Casino, and did I hear you right, there is now user-acquisition growth, you are seeing user acquisition growth post that launch? And then do you have any color on spend per user post launch?

Bill Carstanjen - *Churchill Downs Incorporated - CEO*

The upgrades have really been ongoing. Over the end of the fourth quarter and into the first quarter and currently, we've been focused on improving a bunch of attributes of the product, both in terms of what the customer sees, and then what is behind the scenes that they don't see to improve the operation of the site. So it's been an ongoing process. I think the brand itself is very well understood in the social casino space among the larger customers. There comes a point where most of the better, bigger customers are familiar with us and have tried us. That's why you will see us, and we've have focused on infrastructure improvements that will allow us to better offer newer, different products, besides the ones the market is most familiar with. You'll see that over time.

Adam Trivison - *Gabelli & Co. - Analyst*

Okay.

Bill Carstanjen - *Churchill Downs Incorporated - CEO*

But also within our core brand, our core Big Fish social casino offering, after treading some water as we made some of these improvements, we are starting to see some improvements in some of our basic metrics, seeing the paying users climb.

Adam Trivison - *Gabelli & Co. - Analyst*

Okay. That helps. And then one last one. What's the process to gets TwinSpires onto the Android platform, and what can do you, or how much of it is just up to Google?

Bill Mudd - *Churchill Downs Incorporated - President, COO*

It's completely up to Google. So they do not allow any kind of gambling apps in the Android stores, much to my chagrin. Even our new venue next at Churchill Downs, the area where you're allowed to bet online in that app, on the Android store we had to make it a much softer path to TwinSpires then, than we were able to do on the iTunes store, otherwise we would not have got it approved. Unfortunately, that's completely outside of our control

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Adam Trivison - *Gabelli & Co. - Analyst*

Okay. Great. Thank you for answering my questions.

Bill Carstanjen - *Churchill Downs Incorporated - CEO*

Thanks, Adam

Bill Mudd - *Churchill Downs Incorporated - President, COO*

Thank you.

Operator

At this time I am showing there are no further participate participants in the queue. I would like to turn the call back to management for any further remarks.

Bill Carstanjen - *Churchill Downs Incorporated - CEO*

Thanks very much. We appreciate all of the questions that you ask us. We appreciate you investing in our Company. We are striving for clarity, and explaining better how our Company works now, and how Big Fish works. So again, thanks for joining us on the call, and we look forward to talking to you next time.

Operator

Ladies and gentlemen, thanks for your participation on today's conference. This concludes your program. You may now disconnect, everyone have a great day.
